Farm Credit of Northwest Florida, ACA

FIRST QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2014 quarterly report of Farm Credit of Northwest Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Ricky K. Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

Richard Terry
Chairman of the Board

May 9, 2014

Farm Credit of Northwest Florida, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2014. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of March 31, 2014, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2014.

Ricky K Bitner

Ricky Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

May 9, 2014

Farm Credit of Northwest Florida, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Northwest Florida, ACA (Association) for the period ending March 31, 2014. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2013 Annual Report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including forestry, row crops, livestock, peanuts, horticulture, dairies and rural homes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of March 31, 2014, was $265,183 a decrease of $7,957 as compared to $273,140 at December 31, 2013. Net loans outstanding, gross loans net of the allowance for loan losses, at March 31, 2014, were $259,361 as compared to $267,300 at December 31, 2013. Net loans accounted for 93.92 percent of total assets at March 31, 2014, as compared to 91.93 percent of total assets at December 31, 2013. The reduction in loan volume was due primarily to normal principal payments and seasonal paydowns on operating lines of credit, partially offset by new loan activity.

Portfolio credit quality has improved due to management efforts to work through problem loans and the general improvement in the overall economic environment. Nonaccrual loans were $10,866 at March 31, 2014, a decrease of $1,479 from $12,345 at December 31, 2013.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2014 was $5,822 as compared to $5,840 at December 31, 2013, a decrease of $18. This decrease reflected charge-offs against the allowance for loan losses of $125, offset by recoveries of $107.

The allowance for loan loss of $5,822 at March 31, 2014 was considered by management to be adequate to cover possible losses. The allowance for loan losses represents 2.20 percent of gross loan volume as of March 31, 2014. Other property owned (OPO) was $7,666 as of March 31, 2014 as compared to $9,123 at December 31, 2013. This net decrease of $1,457 was due to acquisitions of $155 and sales of $1,612.

Accounts receivable decreased to $873 as of March 31, 2014 as compared to $5,341 as of December 31, 2013. These amounts represent general receivables and patronage due from AgFirst Farm Credit Bank (AgFirst) and other Farm Credit institutions. The decrease of $4,468 was primarily due to the fact that patronage which had accrued for four quarters as of December 31, 2013 was paid during the first quarter of 2014.

RESULTS OF OPERATIONS

For the three months ending March 31, 2014

Net income for the three months ending March 31, 2014, totaled $1,004, as compared to net income of $1,020 for the same period in 2013, a decrease of $16. Components of the decrease in net income are discussed further in the following paragraphs.

For the three months ending March 31, 2014, interest income increased by $64 or 2.07 percent compared to the same period ending March 31, 2013. For the three months ending March 31, 2014 interest expense decreased by $176 or 14.85 percent, compared to the period ending March 31, 2013. The result was an increase in net interest income of $240 compared to the period ending March 31, 2013.

There was no provision for or reversal of allowance for loan losses for the three months ending March 31, 2014, compared with a reversal of $350 for the three months ending March 31, 2013.

Noninterest income for the three months ending March 31, 2014 totaled $576, as compared to $510 for the same period of 2013, an increase of $66. This increase in noninterest income reflects an increase in patronage from AgFirst and other Farm Credit institutions of $37, an increase in fee income of $13 and gains on the sale of premises and equipment of $16.

Noninterest expense for the three months ending March 31, 2014 totaled $1,717, as compared to $1,745 for the same period of 2013, a decrease of $28. This decrease was due to decreases in salaries and benefits, occupancy and equipment, and losses on OPO, partially offset by increases in insurance fund premiums and other operating expenses.

CAPITAL RESOURCES

Total members' equity at March 31, 2014 increased $966 to $81,569 from the December 31, 2013 total of $80,603. Total capital stock and participation certificates were $812 as of March 31, 2014, a decrease of $38 compared to $850 at December 31, 2013.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2014 the Association's permanent capital ratio was 27.43 percent and the total surplus ratio and core surplus ratio were 27.13 percent and 25.71 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for the permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

On April 20, 2011 the Farm Credit Administration (FCA) entered into a supervisory agreement with the Board of Directors (Board) of the Association. The previous supervisory agreement between the FCA and the Association, dated April 6, 2010, was terminated by the April 20, 2011 agreement. The supervisory agreement dated April 20, 2011 requires the Association to take corrective actions with respect to certain areas of its operations, including board operations, director fiduciary duties, board consultant functions, nominating committee assistance, strategic and business planning, staffing, internal controls, asset quality, loan portfolio management, allowance for loan loss, collateral risk, capital, earnings and liquidity.

Conditions and events that led to the need for this agreement include rapid growth between 2003-2007, deterioration of loan quality, liberal loan structures, lack of oversight to credit policies and procedures, lack of sufficient staff training, high staff turn-over and lack of diversification in the portfolio (concentration in real estate lending).

On September 6, 2013, FCA communicated to the Board its report of examination for the period ending June 30, 2013. FCA noted the Association was in full or substantial compliance with most areas of the supervisory agreement. However, FCA noted that additional improvement is required, specifically in the areas of board governance and standards of conduct, and also noted that Board and management actions have yet to fully resolve asset quality weaknesses.

As required by the supervisory agreement, the Board has engaged and will continue to engage an independent board consultant to advise and counsel the Board in fulfilling its fiduciary responsibilities and to perform other functions as specified in the agreement. The Board has worked closely with the board consultant to improve board operations and governance by updating board committee charters, implementing regular training for directors, strengthening the standards of conduct program, and overseeing the director nominating committee process. Under the direction of the Board, the Association has revised the standards of conduct policy and procedures and appointed a member of senior management to serve as the standards of conduct officer. Asset quality is improving as the Association builds new loan volume and continues to decrease levels of nonaccrual loans and net acquired property. All new loan volume is of "Acceptable" quality or higher in accordance with the supervisory agreement. Both the Board and senior management are committed to achieving full compliance with the supervisory agreement and ensuring that the Association remains compliant with all FCA regulations.

The Association has made progress in complying with the supervisory agreement as noted above. However, the Association remains under supervision as of the date of this report. FCA examiners were on site the week of April 21, 2014 to assess the Association's performance and condition based on the FCA's ongoing oversight and risk-based examination activities. Results of that examination were not available as of the date of this report.

On March 31, 2014, the FCA published an interim final rule rescinding all requirements for nonbinding advisory votes on senior officer compensation at System banks and associations. The comment period for the interim rule ended on April 30, 2014. A final effective date for the rule has not yet been published.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements",* in the Notes to the Financial Statements, and the 2013 Annual Report to Shareholders for recently issued accounting pronouncements.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 850-526-4910 ext. 118, or writing John P. Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, ACA, P.O. Box 7000, Marianna, FL 32447, or accessing the website, *www.farmcredit-fl.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of Northwest Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2014	December 31, 2013
	(unaudited)	*(audited)*
Assets		
Cash	$ 3	$ —
Loans	265,183	273,140
Allowance for loan losses	(5,822)	(5,840)
Net loans	259,361	267,300
Accrued interest receivable	1,422	1,879
Investments in other Farm Credit institutions	3,965	4,148
Premises and equipment, net	1,320	1,361
Other property owned	7,666	9,123
Accounts receivable	873	5,341
Other assets	1,535	1,627
Total assets	$ 276,145	$ 290,779
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 189,693	$ 205,163
Accrued interest payable	355	405
Patronage refunds payable	156	2,023
Accounts payable	613	647
Other liabilities	3,759	1,938
Total liabilities	194,576	210,176
Commitments and contingencies		
Members' Equity		
Protected borrower stock	1	2
Capital stock and participation certificates	811	848
Retained earnings		
Allocated	56,243	56,243
Unallocated	24,514	23,510
Total members' equity	81,569	80,603
Total liabilities and members' equity	$ 276,145	$ 290,779

The accompanying notes are an integral part of these consolidated financial statements.

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2014	2013
Interest Income		
Loans	$ 3,154	$ 3,090
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	1,009	1,185
Net interest income	2,145	1,905
Provision for (reversal of allowance for) loan losses	—	(350)
Net interest income after provision for (reversal of allowance for) loan losses	2,145	2,255
Noninterest Income		
Loan fees	52	39
Patronage refunds from other Farm Credit institutions	501	464
Gains (losses) on sales of rural home loans, net	7	7
Gains (losses) on sales of premises and equipment, net	16	—
Total noninterest income	576	510
Noninterest Expense		
Salaries and employee benefits	1,069	1,095
Occupancy and equipment	76	78
Insurance Fund premiums	59	54
(Gains) losses on other property owned, net	60	115
Other operating expenses	453	403
Total noninterest expense	1,717	1,745
Net income	1,004	1,020
Other comprehensive income	—	—
Comprehensive income	$ 1,004	$ 1,020

The accompanying notes are an integral part of these consolidated financial statements.

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Changes in Members’ Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2012	$ 4	$ 897	$ 51,622	$ 25,290	$ 77,813
Comprehensive income				1,020	1,020
Protected borrower stock retired	(1)				(1)
Capital stock/participation certificates issued/(retired), net		21			21
Balance at March 31, 2013	$ 3	$ 918	$ 51,622	$ 26,310	$ 78,853
Balance at December 31, 2013	$ 2	$ 848	$ 56,243	$ 23,510	$ 80,603
Comprehensive income				1,004	1,004
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		(37)			(37)
Balance at March 31, 2014	$ 1	$ 811	$ 56,243	$ 24,514	$ 81,569

The accompanying notes are an integral part of these consolidated financial statements.

Farm Credit of Northwest Florida, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization

The accompanying financial statements include the accounts of Farm Credit of Northwest Florida, ACA (Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2013, are contained in the 2013 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of the results to be expected for a full year.

Significant Accounting Policies

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified.

Recently Issued Accounting Pronouncements

In March 2014 The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-06, "Technical Corrections and Improvements Related to Glossary Terms (Master Glossary)." The amendments in this Update relate to glossary terms, cover a wide range of Topics in the Codification and are presented in four sections: Deletion of Master Glossary Terms, Addition of Master Glossary Term Links, Duplicate Master Glossary Terms, and Other Technical Corrections Related to Glossary Terms. These amendments did not have transition guidance and were effective upon issuance for both public entities and nonpublic entities.

In January 2014 the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of the amendments in this Update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted.

Other recently issued accounting pronouncements are discussed in the 2013 Annual Report to Shareholders.

Note 2 — Loans and Allowance for Loan Losses

For a complete description of the Association's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 2013 Annual Report to Shareholders.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	March 31, 2014	December 31, 2013
Real estate mortgage	$ 178,388	$ 183,600
Production and intermediate-term	73,032	76,402
Loans to cooperatives	11	11
Processing and marketing	9,197	8,493
Farm-related business	66	72
Communication	1,361	1,381
Rural residential real estate	3,128	3,181
Total Loans	$ 265,183	$ 273,140

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present participation loan balances at periods ended:

	March 31, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 70,993	$ –	$ 3,440	$ 250	$ –	$ 250	$ 74,433
Production and intermediate-term	824	9,144	–	–	3,000	2,204	3,824	11,348
Processing and marketing	9,163	–	–	–	–	–	9,163	–
Communication	1,362	–	–	–	–	–	1,362	–
Total	$ 11,349	$ 80,137	$ –	$ 3,440	$ 3,250	$ 2,204	$ 14,599	$ 85,781

	December 31, 2013							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 71,951	$ –	$ 3,715	$ 252	$ –	$ 252	$ 75,666
Production and intermediate-term	844	9,296	–	–	3,001	2,224	3,845	11,520
Processing and marketing	8,459	–	–	–	–	–	8,459	–
Farm-related business	–	–	–	–	–	–	–	–
Communication	1,380	–	–	–	–	–	1,380	–
Total	$ 10,683	$ 81,247	$ –	$ 3,715	$ 3,253	$ 2,224	$ 13,936	$ 87,186

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	March 31, 2014			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 5,097	$ 63,378	$ 109,913	$ 178,388
Production and intermediate-term	26,013	38,044	8,975	73,032
Loans to cooperatives	–	11	–	11
Processing and marketing	(10)	4,699	4,508	9,197
Farm-related business	–	(3)	69	66
Communication	–	–	1,361	1,361
Rural residential real estate	736	750	1,642	3,128
Total Loans	$ 31,836	$ 106,879	$ 126,468	$ 265,183
Percentage	12.01%	40.30%	47.69%	100.00%

The following table shows loans and related accrued interest, classified under the FCA Uniform Loan Classification System, as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2014	December 31, 2013
Real estate mortgage:		
Acceptable	86.31%	85.69%
OAEM	5.98	5.11
Substandard/doubtful/loss	7.71	9.20
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	62.80%	61.43%
OAEM	7.51	4.13
Substandard/doubtful/loss	29.69	34.44
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	–%	–%
OAEM	–	–
Substandard/doubtful/loss	100.00	100.00
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	79.83%	80.03%
OAEM	0.53	0.53
Substandard/doubtful/loss	19.64	19.44
	100.00%	100.00%
Total Loans:		
Acceptable	80.30%	79.36%
OAEM	6.10	4.60
Substandard/doubtful/loss	13.60	16.04
	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of:

	March 31, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,492	$ 652	$ 3,144	$ 176,265	$ 179,409	$ 85
Production and intermediate-term	1,225	7,889	9,114	64,294	73,408	–
Loans to cooperatives	–	–	–	11	11	–
Processing and marketing	–	(10)	(10)	9,220	9,210	–
Farm-related business	–	–	–	67	67	–
Communication	–	–	–	1,362	1,362	–
Rural residential real estate	43	523	566	2,572	3,138	–
Total	$ 3,760	$ 9,054	$ 12,814	$ 253,791	$ 266,605	$ 85

	December 31, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 443	$ 699	$ 1,142	$ 183,825	$ 184,967	$ –
Production and intermediate-term	2,216	8,247	10,463	66,405	76,868	186
Loans to cooperatives	–	–	–	11	11	–
Processing and marketing	–	(10)	(10)	8,539	8,529	–
Farm-related business	–	–	–	73	73	–
Communication	–	–	–	1,381	1,381	–
Rural residential real estate	43	606	649	2,541	3,190	–
Total	$ 2,702	$ 9,542	$ 12,244	$ 262,775	$ 275,019	$ 186

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest, unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows:

	March 31, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 1,260	$ 2,248
Production and intermediate-term	9,014	9,502
Processing and marketing	(10)	(10)
Farm-related business	–	–
Rural residential real estate	602	605
Total nonaccrual loans	$ 10,866	$ 12,345
Accruing restructured loans:		
Real estate mortgage	$ 384	$ 583
Production and intermediate-term	4,333	4,365
Rural residential real estate	–	–
Total accruing restructured loans	$ 4,717	$ 4,948
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 85	$ –
Production and intermediate-term	–	186
Total accruing loans 90 days or more past due	$ 85	$ 186
Total nonperforming loans	$ 15,668	$ 17,479
Other property owned	7,666	9,123
Total nonperforming assets	$ 23,334	$ 26,602
Nonaccrual loans as a percentage of total loans	4.10%	4.52%
Nonperforming assets as a percentage of total loans and other property owned	8.55%	9.42%
Nonperforming assets as a percentage of capital	28.61%	33.00%

The following table presents information relating to impaired loans (including accrued interest) at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	March 31, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,440	$ 2,739
Past due	9,426	9,606
Total impaired nonaccrual loans	10,866	12,345
Impaired accrual loans:		
Restructured	4,717	4,948
90 days or more past due	85	186
Total impaired accrual loans	4,802	5,134
Total impaired loans	$ 15,668	$ 17,479

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	March 31, 2014			Quarter Ended March 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 779	$ 939	$ 166	$ 839	$ 5
Production and intermediate-term	3,571	4,052	279	3,844	22
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	556	554	427	599	4
Total	$ 4,906	$ 5,545	$ 872	$ 5,282	$ 31
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 950	$ 1,016	$ –	$ 1,023	$ 6
Production and intermediate-term	9,776	10,480	–	10,527	62
Processing and marketing	(10)	1,228	–	(11)	–
Farm-related business	–	–	–	–	–
Rural residential real estate	46	299	–	49	–
Total	$ 10,762	$ 13,023	$ –	$ 11,588	$ 68
Total impaired loans:					
Real estate mortgage	$ 1,729	$ 1,955	$ 166	$ 1,862	$ 11
Production and intermediate-term	13,347	14,532	279	14,371	84
Processing and marketing	(10)	1,228	–	(11)	–
Farm-related business	–	–	–	–	–
Rural residential real estate	602	853	427	648	4
Total	$ 15,668	$ 18,568	$ 872	$ 16,870	$ 99

	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 913	$ 1,168	$ 178	$ 1,065	$ 76
Production and intermediate-term	4,064	4,573	436	4,739	341
Rural residential real estate	559	554	426	653	47
Total	$ 5,536	$ 6,295	$ 1,040	6,457	464
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,919	$ 2,059	$ –	$ 2,238	$ 161
Production and intermediate-term	9,988	10,667	–	11,654	838
Processing and marketing	(10)	1,228	–	(12)	(1)
Farm-related business	–	–	–	–	–
Rural residential real estate	46	299	–	53	4
Total	$ 11,943	$ 14,253	–	$ 13,933	1,002
Total impaired loans:					
Real estate mortgage	$ 2,832	$ 3,227	$ 178	$ 3,303	$ 237
Production and intermediate-term	14,052	15,240	436	16,393	1,179
Processing and marketing	(10)	1,228	–	(12)	(1)
Farm-related business	–	–	–	–	–
Rural residential real estate	605	853	426	706	51
Total	$ 17,479	$ 20,548	$ 1,040	20,390	1,466

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2013	$ 3,457	$ 1,732	$ 153	$ 25	$ 473	$ 5,840
Charge-offs	–	(125)	–	–	–	(125)
Recoveries	69	–	33	–	5	107
Provision for loan losses	19	(7)	(11)	1	(2)	–
Balance at March 31, 2014	$ 3,545	$ 1,600	$ 175	$ 26	$ 476	$ 5,822
Balance at December 31, 2012	$ 2,853	$ 1,564	$ 54	$ 20	$ 58	$ 4,549
Charge-offs	(103)	(321)	–	–	(15)	(439)
Recoveries	648	3	–	–	148	799
Provision for loan losses	(395)	143	30	–	(128)	(350)
Balance at March 31, 2013	$ 3,003	$ 1,389	$ 84	$ 20	$ 63	$ 4,559
Loans individually evaluated for impairment	$ 166	$ 279	$ –	$ –	$ 427	$ 872
Loans collectively evaluated for impairment	3,379	1,321	175	26	49	4,950
Balance at March 31, 2014	$ 3,545	$ 1,600	$ 175	$ 26	$ 476	$ 5,822
Loans individually evaluated for impairment	$ 178	$ 436	$ –	$ –	$ 426	$ 1,040
Loans collectively evaluated for impairment	3,279	1,296	153	25	47	4,800
Balance at December 31, 2013	$ 3,457	$ 1,732	$ 153	$ 25	$ 473	$ 5,840
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 1,260	$ 9,014	$ (10)	$ –	$ 602	$ 10,866
Loans collectively evaluated for impairment	178,149	64,394	9,298	1,362	2,536	255,739
Ending balance at March 31, 2014	$ 179,409	$ 73,408	$ 9,288	$ 1,362	$ 3,138	$ 266,605
Loans individually evaluated for impairment	$ 2,248	$ 9,502	$ (10)	$ –	$ 605	$ 12,345
Loans collectively evaluated for impairment	182,719	67,366	8,623	1,381	2,585	262,674
Ending balance at December 31, 2013	$ 184,967	$ 76,868	$ 8,613	$ 1,381	$ 3,190	$ 275,019

**Includes the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the periods presented related to TDRs. There were no TDRs for the three month periods ended March 31, 2014 and March 31, 2013.

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Defaulted troubled debt restructurings:		
Production and intermediate-term	–	370
Total	$ –	$ 370

The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Total TDRs		Nonaccrual TDRs	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Real estate mortgage	$ 384	$ 584	$ –	$ –
Production and intermediate-term	4,950	4,987	617	623
Processing and marketing	–	–	–	–
Farm-related business	–	–	–	–
Rural residential real estate	477	477	477	477
Total Loans	$ 5,811	$ 6,048	$ 1,094	$ 1,100
Additional commitments to lend	$ –	$ –		

Note 3 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to AgFirst Farm Credit Bank (AgFirst or the Bank) represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 4 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 1.40 percent of the issued stock of the Bank as of March 31, 2014 net of any reciprocal investment. As of that date, the Bank's assets totaled $27.6 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $88 million for the first three months of 2014. In addition, the Association has an investment of $388 related to other Farm Credit institutions.

The classifications within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

	Standby Letters of Credit	
	For the three months ended March 31,	
	2014	2013
Balance at beginning of period	$ 2	$ –
Issuances	3	–
Settlements	–	–
Balance at end of period	$ 5	$ –

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Other Property Owned/Impaired Loans

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the Level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

Inputs to Valuation Techniques

Management determines the Association’s valuation policies and procedures. The Bank performs the majority of the Association’s valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available. Quoted market prices are generally not available for the instruments presented below.

Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Other fair value measurements may use contractual payments and a risk adjusted discount rate, which is generated using the Association's 14-point risk rating scale. An increase in risk rating will generally produce a lower fair value measuremen.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 23,053	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

The following tables present the carrying amounts and fair values of assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, as well as those financial instruments not measured at fair value, for each of the hierarchy levels at the period ended:

	At or for the Three Months Ended March 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:	$ 5	$ –	$ –	$ 5	$ 5	
Recurring Liabilities	$ 5	$ –	$ –	$ 5	$ 5	
Non recurring Measurements						
Assets:						
Impaired loans	$ 14,796	$ –	$ –	$ 14,796	$ 14,796	$ 149
Other property owned	7,666	–	$ –	8,257	8,257	(150)
Nonrecurring Assets	$ 22,462	$ –	$ –	$ 23,053	$ 23,053	$ (1)
Other Financial Instruments						
Assets:						
Cash	$ 3	$ 3	$ –	$ –	$ 3	
Loans	244,565	–	–	242,382	242,382	
Other Financial Assets	$ 244,568	$ 3	$ –	$ 242,382	$ 242,385	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 189,693	$ –	$ –	$ 187,813	$ 187,813	
Other Financial Liabilities	$ 189,693	$ –	$ –	$ 187,813	$ 187,813	

	At or for the Year ended December 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 2	$ –	$ –	$ 2	$ 2	$
Recurring Liabilities	$ 2	$ –	$ –	$ 2	$ 2	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 16,439	$ –	$ –	$ 16,439	$ 16,439	$ 1,064
Other property owned	9,123	–	–	10,673	10,673	(1,089)
Nonrecurring Assets	$ 25,562	$ –	$ –	$ 27,112	$ 27,112	$ (25)
Other Financial Instruments						
Assets:						
Cash	$ –	$ –	$ –	$ –	$ –	
Loans	250,861	–	–	248,774	248,774	
Other Financial Assets	$ 250,861	$ –	$ –	$ 248,774	$ 248,774	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 205,163	$ –	$ –	$ 202,744	$ 202,744	
Other Financial Liabilities	$ 205,163	$ –	$ –	$ 202,744	$ 202,744	

Note 5 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the three months Ended March 31, 2014	2013
Pension	$ 165	$ 167
401(k)	30	29
Other postretirement benefits	28	27
Total	$ 223	$ 223

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 3/31/14	Projected Contributions For Remainder Of 2014	Projected Total Contributions 2014
Pension	$ –	$ 522	$ 522
Other postretirement benefits	32	102	134
Total	$ 32	$ 624	$ 656

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2014.

Further details regarding employee benefit plans are contained in the 2013 Annual Report to Shareholders.

Note 6 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 7 — Regulatory Enforcement Matters

On April 20, 2011 the Farm Credit Administration (FCA) entered into a supervisory agreement with the Board of Directors of the Association. The previous supervisory agreement between the FCA and the Association, dated April 6, 2010, was terminated by the April 20, 2011 agreement. The supervisory agreement dated April 20, 2011 requires the Association to take corrective actions with respect to certain areas of its operations, including board operations, director fiduciary duties, board consultant functions, nominating committee assistance, strategic and business planning, staffing, internal controls, asset quality, loan portfolio management, allowance for loan loss, collateral risk, capital, earnings and liquidity.

See further discussion of the supervisory agreement in the "Regulatory Matters" section of Management's Discussion and Analysis of Financial Condition and Results of Operation contained in this Quarterly Report.

Note 8 — Subsequent Events

The Association has evaluated subsequent events and has determined there are none requiring disclosure through May 9, 2014, which is the date the financial statements were issued.